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Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 DODE-00 PM-05
H-01 L-03 NSC-05 PA-01 SS-15 CEA-01 STR-07 DOE-15
SOE-02 AGRE-00 /128 W
----------130626 021547Z /45
R 021417Z MAY 78
FM AMEMBASSY LISBON
TO SECSTATE WASHDC 5581
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
USMISSION USNATO
AMEMBASSY THE HAGUE
AMEMBASSY COPENHAGEN
AMEMBASSY OSLO
AMEMBASSY TOKYO

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E.O. 11652: GDS
TAGS: ECON EFIN PO
SUBJECT: SILVA LOPES DISCUSSES PORTUGAL'S ECONOMIC
PROSPECTS

SUMMARY: AT A RECENT PRIVATE LUNCH WITH THE AMBASSADOR, DR. JOSE SILVA LOPES, THE HEAD OF PORTUGAL'S CENTRAL BANK, ASSAYED THE PROSPECTS FOR THE PORTUGUESE ECONOMY IN SOBER TERMS. THE CONFIDENTIAL

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GIST OF HIS ANALYSIS WAS THAT PORTUGAL'S NEED FOR EXTRAORDINARY ECONOMIC ASSISTANCE WILL NOT END WITH THE CURRENT IMF STANDBY/ MULTILATERAL LOAN PACKAGE. END SUMMARY.

1. SILVA LOPES' POINT OF DEPARTURE WAS THAT, EVEN IF THE 1974 REVOLUTION HAD NOT HAPPENED, THE PORTUGUESE ECONOMY WOULD BE IN BAD SHAPE. AS A RESULT OF THE INCREASE IN OIL PRICES AND

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THAT NATURE OF PORTUGAL'S EXPORTS, THE COUNTRY'S TERMS OF TRADE DETERIORATED BY 30 PERCENT FROM 1973 TO 1977, A MUCH LARGER DETERIORATION THAN THAT SUFFERED BY OTHER WESTERN COUNTRIES. THE LATTER HAVE BEEN COMPENSATED PARTIALLY FOR THE RISE IN OIL IMPORT PRICES BY THE INCREASE IN THE GENERAL PRICE LEVEL OF INDUSTRIAL EXPORTS. PORTUGAL'S EXPORTS, HOWEVER, CONSIST OF HIGHLY COMPETITIVE GOODS AND SERVICES LIKE SHOES, TEXTILES, TOMATO PASTE, AND TOURISM, IN WHICH PRICES ARE SOFT AND SOME OF WHICH FACE INCREASING PROTECTIONISM.

2. IF PORTUGAL WERE TO HAVE TO BEAR THE FULL BRUNT OF THE TERMS OF TRADE ADJUSTMENT, IT WOULD HAVE TO REDUCE REAL INCOME BY AN AMOUNT SO EXCESSIVE THAT IT COULD ONLY BE ACCOMPLISHED UNDER A "PINOCHET". THIS WAS RECOGNIZED BY THE DEMOCRACIES, WHICH CAME TO PORTUGAL'S AID WITH THE MULTILATERAL LOAN EFFORT. EVEN SO, IMPORTS WILL HAVE TO DECLINE BY 6 PERCENT IN REAL TERMS THIS YEAR TO MEET THE STABILIZATION TARGETS AND THE OFFICIALLY PROJECTED GROWTH OF GDP, A MODEST 2 PERCENT, IS UNLIKELY TO BE ACHIEVED.

3. THE PROJECTIONS FOR 1979 ARE WORRISOME: IMPORTS CANNOT BE SQUEEZED FURTHER WITHOUT UNACCEPTABLE SOCIAL AND POLITICAL RISKS, AND TO EXPECT EXPORTS TO GROW ANOTHER 8 PERCENT (THIS YEAR'S TARGET) IS OPTIMISTIC GIVEN THE SLOW GROWTH PROJECTED FOR THE EUROPEAN ECONOMIES. EMIGRANT REMITTANCES WILL STABILIZE NEAR PRESENT LEVELS BECAUSE PORTUGUESE EMIGRATION HAS SLOWED
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TO A TRICKLE. ON TOP OF THIS, PORTUGAL'S CUSTOMERS AND FUTURE PARTNERS (IN THE EC) ARE MOVING TO RAISE NEW BARRIERS TO THE KIND OF EXPORTS THAT PORTUGAL DEPENDS UPON.

4. IN SILVA LOPES' VIEW, PORTUGAL MUST MAKE AN HEROIC EFFORT TO ACHIEVE A DYNAMIC EXPORT SECTOR AS THE ONLY VIABLE SOLUTION TO ITS BALANCE OF PAYMENTS PROBLEM. BUT THIS REQUIRES SUBSTANTIAL FOREIGN INVESTMENT IN EXPORT INDUSTRIES, AS PORTUGAL'S OWN WEAK ENTREPRENEURIAL CLASS IS INCAPABLE OF MOUNTING SUCH AN EFFORT, AT LEAST IN THE MEDIUM TERM. SILVA LOPES' SOUNDINGS IN GERMANY, WHERE HE VISITED RECENTLY, AND ELSEWHERE WERE NOT ENCOURAGING. THE EUROPEAN INVESTORS' ATTITUDE IS THAT, IN THE CURRENT UNCERTAIN OUTLOOK FOR THE INTERNATIONAL ECONOMY, IT IS BETTER TO INVEST IN COUNTRIES WITH LARGE INTERNAL MARKETS, E.G. THE U.S. MOREOVER, PORTUGAL STILL LOOKS POLITICALLY SHAKY TO THE FOREIGN BUSINESSMAN.

5. SILVA LOPES BELIEVES THAT PORTUGAL'S ENTRANCE INTO THE EUROPEAN COMMUNITY WILL PROVIDE SOME ENCOURAGEMENT TO FOREIGN INVESTORS, BUT HOW MUCH IS UNCERTAIN. PORTUGAL THUS BADLY NEEDS HELP FROM THE OTHER DEMOCRACIES TO ENCOURAGE CONFIDENCE

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AMONG THEIR INVESTORS IN PORTUGAL'S FUTURE. HOW THIS CAN BE
ACHIEVED IS NOT CLEAR.

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6. IF PORTUGAL IS TO BE "BROUGHT INTO THE MODERN WORLD",
BECOME A FULLY-INTEGRATED MEMBER OF EUROPE, AND PRESERVE ITS
DEMOCRACY, THE COUNTRY WILL ALSO NEED A SUSTAINED DEVELOPMENT
EFFORT, SUPPORTED BY THE INTERNATIONAL FINANCIAL INSTITUTIONS
AND THE INDUSTRIAL COUNTRIES. AS IMPORTANT AS FINANCIAL
ASSISTANCE WILL BE TECHNICAL HELP TO OVERCOME THE INERTIA
OF PORTUGAL'S INEFFICIENT BUREAUCRACY, ESPECIALLY IN THE
DESIGN AND IMPLEMENTATION OF PROJECTS.
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7. IN THE MEANTIME, PORTUGAL'S BALANCE OF PAYMENTS SITUATION REMAINS PARLOUS. SILVA LOPES DOES NOT SEE HOW THE CURRENT ACCOUNT DEFICIT CAN BE REDUCED BELOW $800 MILLION NEXT YEAR. PORTUGAL'S REMAINING UNPLEDGED GOLD RESERVES (ABOUT 350 TONS) WILL BE THE MINIMUM NECESSARY TO PROVIDE PSYCHOLOGICAL BACKING FOR ITS NEARLY $2.5 BILLION IN UNSECURED FOREIGN DEBT. THE WITTEVEEN FACILITY AND OTHER IMF RESOURCES WILL COVER A PART OF THE GAP--BUT NOT ALL.

8. SILVA LOPES IS ONE OF PORTUGAL'S MOST WIDELY RESPECTED PUBLIC FIGURES, REFLECTING NOT ONLY HIS TECHNICAL ABILITIES BUT ALSO HIS INTELLECTUAL HONESTY. THUS, HIS SOMBER ASSESSMENT SHOULD RECEIVE SERIOUS ATTENTION AND NOT BE REGARDED AS A CASE OF SPECIAL-PLEADING.
BLOOMFIELD

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TAGS: ECON, EFIN, PO, (SILVA LOPES, JOSE)
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